IIEC Exhibit 3.0

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Illinois Electric Transmission Company LLC	:	
	:	
Application for a Certificate of Public Convenience and Necessity, pursuant to Section 8-406 of the Public Utilities Act, to operate as a Public Utility, and for related approvals.	:	Docket No. 02-0742
	:	
Illinois Power Company	:	
	:	
Petition for an Order (1) Concerning Classification of Illinois Power Company's Transmission and Distribution Facilities and (2) for Certain Determinations in Connection with the Sale of Illinois Power Company's Transmission System to Illinois Electric Transmission Company, LLC.	:	Docket No. 02-0743
	:	

Supplemental Direct Testimony and Schedules of

James R. Dauphinais

On behalf of

Illinois Industrial Energy Consumers

February 7, 2003
Project 7911

BAI
BRUBAKER & ASSOCIATES, INC.
ST. LOUIS, MO 63141-2000

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

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Supplemental Direct Testimony of James R. Dauphinais

I. INTRODUCTION

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A James R. Dauphinais. My business mailing address is P.O. Box 412000, 1215 Fern Ridge Parkway, Suite 208, St. Louis, Missouri 63141-2000.

Q ARE YOU THE SAME JAMES R. DAUPHINAIS THAT HAS PROVIDED DIRECT TESTIMONY ON BEHALF OF THE ILLINOIS INDUSTRIAL ENERGY CONSUMERS (IIEC) IN DOCKET NOS. 02-0742 AND 02-0743?

A Yes.

Q PLEASE ELABORATE AS TO THE FOCUS OF YOUR SUPPLEMENTAL DIRECT TESTIMONY?

A When Illinois Electric Transmission Company (IETC) filed its Petition in Docket No. 02-0742 on November 14, 2002, it did not provide details on the transmission rates that would be proposed though IETC's Petition included an application for a Certificate of Public Convenience and Necessity (Certificate) to operate and maintain the transmission facilities it proposes to purchase from Illinois Power Company (IP). On January 10, 2003 in Docket No. 03-0022, IP took into consideration IETC's transmission rate filing for the record.

Counsel has advised me that the benefits of granting a Certificate to IETC may be taken into consideration with the transmission rate impact, pursuant to the requirements of Sections 8-406(a), (b), and (d) of the Public Utility Act (220 ILCS 5/8-406(a), (b) and (d)). In these sections of the Statute, consideration is given to whether granting the Certificate is in the public convenience, the least-cost approach, and whether cost or cost savings are being provided to customers of the utility. In this testimony, I consider the impact of the IETC transmission rate filing on IETC's Petition in Docket No. 02-0742.

Q WOULD YOU ELABORATE FURTHER ON THE IETC PROPOSAL AND HOW IT BEARS ON YOUR TESTIMONY?

A Yes. Mr. Paul D. McCoy in his direct testimony on behalf of IETC elaborates somewhat on IETC's perspective on how its ownership of the transmission assets will benefit the public, by referencing the "independent ownership of the assets within an RTO" and "IETC's ability to improve transmission asset management," as well as the

"the development of innovative services, rates, and operational efficiencies." Much of what we have learned as to what IETC intended by "innovative services, rates, and operational efficiencies" came about as a result of its rate filing at the FERC, which occurred after IP's original Section 16-111(g) filing, but which has been incorporated in part in its new Section 16-111(g) filing as of January 10, 2003.

Q PLEASE DESCRIBE IETC'S PETITION IN MORE DETAIL.

A In its Petition, IETC indicates it is seeking a Certificate pursuant to Section 8-406 of the Act. IETC indicates it is seeking certification pursuant to Section 8-406(a) of the Act and that in this respect, it will own, control, operate and manage, within the State of Illinois, for public use, facilities used for the transmission of electricity. IETC would be transmitting electricity for use by the public at rates, terms and conditions exclusively set by the Federal Energy Regulatory Commission (FERC) rather than a combination of rates set by the Illinois Commerce Commission (ICC) and the FERC based on IP's transmission cost of service as determined separately by each commission. IETC would be performing the same transmission function that is now performed by IP using the same lines and facilities. Later in its Petition, IETC also seeks a Certificate pursuant to Section 8-406(b) of the Act to operate and maintain (including repair or replacement of) these lines and facilities, but does not seek authority to construct any new facilities at this time.

Q WHAT ARE YOUR CONCLUSIONS AND RECOMMENDATIONS?

A Granting the requested Certificates is not in the public convenience, is not the least-cost means of satisfying the service needs of customers in IP's service territory, and is likely to result in a severe rate impact. The IETC's proposed gross levelized plant transmission rates would ultimately increase costs faced by retail and wholesale customers by about $14 million annually versus the rates that would apply if the Certificates were not granted. In the face of this tremendous cost impact, IETC has not demonstrated that there will be benefits to retail and wholesale customers that equal or exceed the increased costs that will be incurred by customers if the Commission grants IETC its requested relief. Therefore, I recommend that the Commission deny IETC's Petition for the Certificates of Public Convenience and Necessity.

Q WILL ADOPTION OF YOUR RECOMMENDATIONS PREVENT THE SALE OF IP'S TRANSMISSION ASSETS TO IETC?

A Yes. If IETC is not granted the Certificates, it would not be permitted to operate as a public utility or operate and maintain the transmission facilities in question. This would necessitate, at least until IETC and IP restructured their proposed transaction or IP found another prospective buyer, continued IP ownership of the facilities.

II. RATE IMPACT OF IETC'S PETITION

Q WHAT REVENUE REQUIREMENT IS IP CURRENTLY AUTHORIZED TO COLLECT FROM ITS RETAIL AND WHOLESALE CUSTOMERS?

A There currently is not a separately determined transmission revenue requirement for bundled retail customers set by the ICC. However, the FERC has authorized IP a total annual transmission revenue requirement of $24,750,000 (see IP Response in Docket No. 03-0022 to Staff Data Request BAL-4). This authorized transmission revenue requirement represents a negotiated settlement of IP's total transmission cost of service for providing bundled retail, bundled wholesale, and unbundled firm transmission service other than short-term firm transmission service. This negotiated transmission revenue requirement is the basis of the transmission rates currently paid by IP's unbundled retail and wholesale transmission customers.

Q COULD IP'S AUTHORIZED REVENUE REQUIREMENT FOR TRANSMISSION SERVICE INCREASE IN THE NEAR OR IMMEDIATE FUTURE, ASSUMING IT DID NOT SELL ITS TRANSMISSION ASSETS TO IETC?

A Unless IP's return on equity (ROE) fell below certain thresholds specified in Section 16-111(g) of the Act, IP is barred from seeking to increase the transmission component of its authorized bundled retail cost of service, until after December 31, 2006. In this respect, bundled customers would see no change in their rates until December 31, 2006.

However, IP could refile at any time under Section 205 of the Federal Power Act to increase its FERC authorized transmission revenue requirement. This would increase the rates paid by IP's unbundled retail and wholesale transmission customers. Note that IP would retain its Section 205 rights for its transmission revenue requirement as a transmission owning member of the Midwest Independent Transmission System Operator (MISO) Regional Transmission Organization (RTO) even though transmission rates developed from that revenue requirement for IP customers would be under the MISO Open Access Transmission Tariff (OATT) rather than an IP OATT.

Q DO YOU ANTICIPATE SUCH A FILING BY IP?

A First, I need to address IP's participation in the MISO RTO. Prior to December of 2002, IP was proposing to transfer functional control of its transmission facilities to the PJM Interconnection, LLC (PJM) RTO. However, on December 18, 2002, IP entered into a Memorandum of Understanding ("IP MOU") with the MISO (**Schedule 1**). The IP MOU requires IP to apply for membership in the MISO as a transmission owner with functional control of its transmission facilities being transferred to MISO at the earlier of the date the transmission facilities of the GridAmerica 3 companies are included in the MISO OATT or the date of closing of the sale of IP's transmission assets to IETC (Id. at para. 2). The GridAmerica 3 companies are Ameren (Central Illinois Public Service Company and Union Electric Company), FirstEnergy and Northern Indiana Public Service Company.

The IP MOU requires IP to remain in the MISO until at least December 31, 2004, but allows IP to leave the MISO after that date subject to the FERC's approval (Id. at para. 3)

Q SO DOES THE IP MOU BIND IP TO TRANSFERRING FUNCTIONAL CONTROL OF ITS TRANSMISSION ASSETS TO THE MISO EVEN IF IP'S PROPOSED SALE OF ITS TRANSMISSION ASSETS IS NEVER COMPLETED?

A As I am not a lawyer, I cannot offer a definitive legal interpretation, but that is IIEC's counsel's understanding of the provision.

Q SO THE TRANSFER OF FUNCTIONAL CONTROL OF IP'S TRANSMISSION ASSETS TO THE MISO, RATHER THAN PJM, IS NOT IN ANY WAY CONTINGENT ON THE SALE OF IP'S TRANSMISSION ASSETS TO IETC?

A Again, I am not a lawyer, but that is IIEC's counsel's understanding of the provision.

Q BARRING COMPLETION OF THE SALE OF THE TRANSMISSION ASSETS TO IETC, WHAT WOULD HAPPEN TO IP'S FERC-AUTHORIZED TRANSMISSION REVENUE REQUIREMENT?

A The IP MOU allows continued use of IP's existing FERC-authorized transmission revenue requirement of $24,750,000 as the basis of transmission rates for IP's unbundled retail and wholesale transmission customers. However, IP could make a filing with FERC under Section 205 of the Federal Power Act to increase its transmission revenue requirement under the MISO OATT.

Q HAS IP PROVIDED AN INDICATION OF HOW LARGE OF A TRANSMISSION REVENUE REQUIREMENT IT MIGHT SEEK IF IT WERE TO MAKE A SECTION 205 RATE FILING AT THE FERC?

A Yes. IP witness Mr. Shawn E. Schukar provided direct testimony in its joint filing with IETC in Illinois Power Company, et al., FERC Docket Nos. EC03-30-000 and ER03-284-000. He indicated that without the transmission asset sale to IETC, IP would likely have sought to increase its FERC-authorized transmission revenue requirement by approximately 60% (FERC Docket Nos. EC03-30-000, et al., Exhibit IP-1 at 7). This would increase IP's FERC-authorized annual transmission revenue requirement from the present $24,750,000 to approximately $39,600,000. However, this presupposes the FERC would allow IP to switch from a traditional non-levelized rate method to a gross levelized plant method as IP had previously proposed in FERC Docket No. ER01-2999-000 (Id. at 4).[1] IP has estimated that by using a traditional non-levelized method, its proposed transmission revenue requirement would be $33,254,000 instead of $39,600,000 (IP Response in Docket No. 03-0022 to Staff Data Request BAL-4).

Q HAS IP EVER SUGGESTED IT MIGHT CONSIDER ADOPTING THE EXISTING FERC-APPROVED MISO NON-LEVELIZED FORMULA RATE AS A BASIS OF ITS RATES?

A No, it has not.

Q WHAT IS THE LIKELIHOOD IP WOULD BE GRANTED PERMISSION TO SWITCH TO A GROSS LEVELIZED PLANT METHOD?

A I do not believe that is a likely outcome. Outside of the case of utilities participating in an RTO, the FERC has consistently disallowed a switch from a traditional non-levelized rate method to a gross levelized plant method. In <u>Maine Public Service Co.</u>, 85 FERC ¶61,412 at 62,564 (1998), the FERC indicated " . . . switching to a gross levelized plant methodology . . . . [allows a utility to] recover a new depreciation expense that it has already recovered, and therefore over recover its transmission revenue requirement." The FERC similarly noted in <u>Kentucky Utilities Co.</u>, 85 FERC ¶61,274 at 62,103-62,105 (1998), that ". . . initially using a net plant method for a set

[1] FERC Docket No. ER01-2999-000 proposed IP's transmission revenue requirement under the proposed Alliance RTO. The filing became moot when FERC refused to grant the Alliance approval as an RTO.

of facilities and later switching to a levelized gross plant method produces higher rates than the rates produced by a consistent use of either method."

Q WHAT HAS THE FERC SAID IN REGARD TO THE CASE OF UTILITIES PARTICIPATING IN A RTO?

A In its Order No. 2000, the FERC recognized two concerns that may be addressed in specific cases by applying levelized rates to RTOs:

- Differences in rates depending on when service is taken.
- Loss of revenues due to RTO formation.

Because of these concerns, the FERC concluded it ". . . should allow increased flexibility for the RTO proposals that include ratemaking practices on levelized rates." (89 FERC ¶61,285 (1999), 1999 FERC Lexis 7692 Pt 5 of 7 at 91). However, the FERC also indicated ". . . that a case-by-case evaluation of transmission reform proposals [such as the use of a gross levelized rate method] is appropriate, given that such proposals are not generic in nature, and a proposal may be appropriate in some RTO circumstances but not others." (89 FERC ¶61,285 (1999), 1999 FERC Lexis 2692 Pt 5 of 7 at 84). To this end, Part 35.34(e)(i) of the FERC's regulations requires that the following be provided when requesting any innovative rate treatment including a gross levelized plant method:

- A detailed explanation of how the proposed rate treatment would achieve the goals of RTOs, including efficient use of and investment in transmission system and reliability benefits to customers,
- A cost-benefit analysis, including rate impacts, and
- A detailed explanation of why the proposed rate treatment is appropriate for the RTO.

I do not believe IP could successfully make a case that a gross levelized plant method would further the goals of the MISO, provide a cost benefit to customers, or is appropriate for the MISO RTO.

Q WHY DO YOU BELIEVE A GROSS LEVELIZED PLANT RATE METHOD WOULD NOT FURTHER THE GOALS OF MISO?

A None of the existing or other pending transmission owning members of the MISO have seen a need to have gross levelized plant rates in order to participate in the MISO[2] and the MISO has not seen the need to request gross levelized plant rates for its transmission owning members on a RTO-wide basis. Gross levelized plant rates can also discourage new transmission investment since they reduce cost recovery during the early years of new investment versus a traditional non-levelized plant rate. This may also discourage investment in upgrades necessary to maintain reliability. Thus, there are no reliability benefits provided by gross levelized plant rates.

Q WHY DO YOU BELIEVE IP COULD NOT SHOW BENEFITS FROM THE USE OF A GROSS LEVELIZED PLANT RATE?

A Because there are none except in the limited case where a utility's transmission rate base has very little current depreciation and where that utility will be pursuing extensive new transmission investments. In such a scenario, the utility's rates would be lower than under a traditional depreciated rate. However, this is not the case with IP whose transmission rate base is depreciated in excess of 45% (IP FERC Form 1

[2] The original MISO transmission owners (including IP at that time) originally proposed to use a gross levelized plant method for the MISO transmission revenue requirement formula rate. However, they voluntarily withdrew that proposal in FERC Docket No. ER98-1438-000 and it has not served as a barrier to transmission owner participation in the MISO.

Filing for 2001 shows $125 million of accumulated transmission plant depreciation). It should also be noted that IP is already required by Section 16-126 of the Act to participate in an ISO or RTO. Therefore, there is no need to incent IP's participation in an RTO.

Q WHY DO YOU BELIEVE IP CANNOT SHOW THE USE OF A GROSS LEVELIZED RATE METHOD IS APPROPRIATE FOR THE MISO RTO?

A First and foremost, IP is not the MISO and it is difficult to understand how IP could claim the method is appropriate for the MISO RTO when neither the MISO nor any current or proposed transmission owning member of the MISO other than IP is proposing the use of a gross levelized plant transmission rate at this time. Moreover, concerns about such issues as the loss of revenues due to RTO formation are being addressed in other forums such as FERC Docket No. EL02-111-000 and it is my understanding those forums do not contemplate the use of gross levelized plant rates.

Q WHAT CONCLUSIONS MIGHT YOU DRAW IN REGARD TO IP SEEKING FERC APPROVAL OF A GROSS LEVELIZED PLANT RATE?

A While there can be no absolute certainty that FERC will not deviate from past holdings, or move in a different direction than the pronouncements in Order No. 2000, in my judgment, it does not appear likely that IP will succeed in its pursuit of a gross levelized plant methodology. Therefore, it is likely the FERC would not authorize a new annual transmission revenue requirement in excess of $33,254,000.

Q IF THE ICC GRANTS IETC'S PETITION FOR THE CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY, WHAT TRANSMISSION REVENUE REQUIREMENT HAS IETC PROPOSED AT THE FERC TO WHICH CUSTOMERS WOULD BE SUBJECT?

A On an illustrative basis, IETC has estimated its proposed gross levelized plant rate transmission revenue requirement would be $47,404,000 until inputs to its rate formula are next revised.

Q CAN YOU ESTIMATE IETC'S TRANSMISSION REVENUE REQUIREMENT BE IF THE FERC DENIED THE USE OF THE GROSS LEVELIZED PLANT METHOD?

A Yes. As part of the January 28, 2003 Motion to Strike Answer and In the Alternative, Motion to Respond to Answer on Behalf of Archer-Daniels-Midland Company et al. as the Illinois Industrial Energy Consumers (IIEC) (**Schedule 2**), I prepared in an affidavit an illustrative calculation of IETC's annual FERC transmission revenue requirement using the MISO's non-levelized rate formula with IETC's transmission expense assumptions. I found IETC's illustrative non-levelized transmission revenue requirement would be between $33,872,599 and $36,268,349 depending on whether 150 extra basis points on Return on Equity (ROE) or a credit based on deferred taxes is assumed under the FERC's proposed policy for efficient operation and expansion of transmission grid (Proposed Pricing Policy).[3] (**Schedule 2**, Affidavit of James R. Dauphinais, Schedule 3 at 1 and Schedule 5 at 1) (The inclusion of the 150 basis plant ROE or a credit for deferred income tax incentives in my calculations should not

[3] Proposed Policy for Efficient Operation and Expansion of Transmission Grid, Notice of Proposed Policy, 102 FERC ¶61,032 (2003). The proposed policy, if adopted, would provide independent transmission companies an additional 150 basis points of ROE or a credit tied to deferred taxes.

be construed as a tacit endorsement by me of either of those incentives. I included them for illustrative purposes only.)

Q IS IT LIKELY THAT IETC WILL BE ABLE TO RECEIVE FERC APPROVAL FOR ITS PROPOSED GROSS LEVELIZED PLANT METHOD RATE?

A IETC has a greater likelihood of receiving approval to use a gross levelized plant method than IP. As a proposed Independent Transmission Company (ITC), IETC can attempt to argue its independent ownership of transmission assets provides benefits that exceed the additional cost to customers caused by the use of a gross levelized plant method. In fact, IETC has just done this. Specifically, IETC witness Mr. Paul D. McCoy in his direct testimony in FERC Docket Nos. EC03-30-000 and ER03-284-000 argues:

> "A levelized gross plant method and the other required rate treatments are warranted and consistent with Commission policy in view of the significant benefits of independent transmission and Trans-Elect's commitments in that regard . . . " (FERC Docket Nos. EC03-30-000 and ER03-284-000, Exhibit No. TE-1 at 6).

IETC also provided to the FERC in Docket Nos. EC03-30-000 and ER03-284-000 a cost benefit analysis for the proposed Sidney to Rising 345 kV line performed by IETC witness Mr. Ronald W. Norman (FERC Docket Nos. EC03-30-000, et al., Exhibit Nos. TE-10 through TE-12) that IETC witness Mr. James A. Drzemiecki claims shows the benefits of independent transmission ownership. (FERC Docket Nos. EC03-30-000, et al., Exhibit No. TE-5 at 20-22.)

These positive net cost benefit claims by IETC make it more likely the FERC would allow IETC to use a gross levelized plant method than it would allow IP to do so if it did not sell its transmission assets. This is especially true due to statements by

FERC that it will consider greater levels of rate incentives when there are greater levels of independence in regard to transmission operation and ownership. For example, as I indicated earlier, in the FERC's Proposed Pricing Policy, it would potentially allow an additional 150 basis points of ROE for ITCs.[4]

Therefore, the likely scenario for continued IP transmission ownership is an annual transmission revenue requirement of $33,254,000 while the likely scenario with a sale of transmission assets to IETC is an annual transmission revenue requirement of $47,404,000. Thus, the total increase in cost to IP's retail and wholesale customers from granting the requested certificates prior to considering any alleged benefits brought by IETC is approximately $14 million annually.[5]

Q WHEN WOULD CUSTOMERS SEE THE INCREASE IN COSTS?

A Unbundled retail transmission customers without a competitive transition charge would see this transmission revenue requirement increase directly as a 42.6% increase in transmission rates versus those under a scenario with continued IP transmission ownership. Bundled retail customers would not see the impact of this increase until after December 31, 2006 unless IP's ROE falls such that it qualifies for rate relief pursuant to Section 16-111(g) of the Act. However, after December 31, 2006 bundled retail customers would directly see this increase if IP chooses to file for

[4] This is not to say granting gross levelized plant rates is comparable to giving 150 basis points of additional ROE. Moreover, this is not meant to suggest ITCs should receive gross levelized plant rates.

[5] Note that the ICC does not currently develop a separate transmission revenue requirement for bundled retail rates. Therefore, in my comparison I assume the transmission revenue requirement IP would propose at the FERC is the same it would propose for bundled rates if so required by the ICC as part of future rate proceedings. I also note that the FERC is contemplating in its rulemaking on Standard Market Design the possibility of claiming jurisdiction over bundled retail transmission rates, as well as unbundled retail transmission rates. In that case, IP bundled retail transmission cost of service would be based on the FERC transmission revenue requirement rather than a transmission revenue requirement determined by the ICC.

a rate increase at that time since IP's transmission expense would be based on IETC's transmission rates. While IETC has proposed to cap its transmission rates during the three and one-half years starting June 1, 2007, bundled retail customers would still see higher rates due to IETC's transmission rates if IP seeks rate relief starting anytime after January 1, 2007.

As an aside, the rate cap acts as a disincentive to new transmission investment during that three and one-half year period, countering one of the alleged benefits of independent transmission ownership.

III. ALLEGED COST BENEFITS

Q YOU MENTIONED PREVIOUSLY THE COST BENEFITS ALLEGED BY IETC. HAVE YOU REVIEWED THE COST BENEFIT ANALYSIS IETC HAS PRESENTED TO THE FERC IN DOCKET NOS. EC03-30-000, ET AL.?

A Yes. In his direct testimony, IETC witness Mr. Drzemiecki argues that the sale of the IP transmission assets to IETC will provide a present value benefit of $16.9 million to the MISO-PJM-Southwest Power Pool region through the construction of a new 345 kV transmission line from Sidney to Rising based on a study performed by IETC witness Mr. Norman. (FERC Docket Nos. EC03-30-000, et al., Exhibit No. TE-5 at 21). He also argues this is a conservative estimate of benefits as it neglects increased confidence in the market and more efficient management (Id. at 22).

Q DO YOU BELIEVE IETC'S COST-BENEFIT ANALYSIS DEMONSTRATES THAT GRANTING A CERTIFICATE TO IETC WILL PROVIDE THE LEAST-COST SERVICE TO IP CUSTOMERS?

A No. First, the alleged $16.9 million net present value of independent transmission to the overall MISO-PJM-Southwest Power Pool region pales in comparison to the $14.1 million increase in the <u>annual</u> transmission revenue requirement that would be faced immediately by IP's unbundled retail and wholesale transmission customers and eventually by IP's bundled retail customers.

Second, the $16.9 million figure is for the overall MISO-PJM-Southwest Power Pool super region. The alleged benefit to the State of Illinois is approximately 70% to 75% of the overall alleged benefit for the MISO-PJM-Southwest Power Pool super region according to the tables in Mr. Norman's direct testimony at FERC (FERC Docket Nos. EC03-30-000, et al., Exhibit No. TE-10 at 5-6). Similarly, alleged benefits for the IP system are approximately 40% of the alleged benefit for the MISO-PJM-Southwest Power Pool super region (Id). Therefore, IETC has <u>not</u> quantified a tangible benefit to IP customers that exceeds the increase in transmission cost as a result of IETC having a substantially higher transmission revenue requirement than IP would have absent the transmission asset sale.

Third, IETC has not provided evidence that independent transmission will in fact result in greater market confidence and more efficient management. Independent ownership of transmission provides a negligible increase in market confidence once transmission facilities have been transferred to the functional control of an RTO. It is RTOs that will independently operate and plan the transmission systems that have been functionally transferred to their control regardless of whether those systems are independently owned. Moreover, RTOs will do this more efficiently than individual transmission owners by performing this operation and planning on a region-wide basis. RTOs also independently administer the provision of transmission service over the transmission systems they functionally control, again on a more efficient regional basis. It is this independent and regional operation and planning of the transmission system that instill confidence in the market and provides for more efficient management. The addition of independent ownership under the umbrella of an RTO would not significantly improve the benefits of independent control of transmission by the RTO. Moreover, it is important to note in the specific case at hand, IP is committed to transfer functional control of its transmission facilities to the MISO RTO regardless of whether the sale of its transmission assets to IETC is ever completed.

Q DO YOU HAVE ANY OTHER ISSUES WITH IETC'S COST-BENEFIT ANALYSIS AND STUDY?

A Yes. First, Mr. Drzemiecki claims the alleged $16.9 million benefit of the Sidney to Rising 345 kV line is a benefit of independent transmission ownership. This is simply not correct. IETC in response to Data Request IIEC-IETC-9 has <u>not</u> committed to actually construct this transmission line, but rather will be simply turning its studies of the line over to the MISO (**Schedule 3**). MISO could pursue the addition of the 345 kV line through its own planning process with or without IETC purchasing IP's transmission assets.

Moreover, what is to say IP could not submit the same proposal to MISO? The MISO is not limited in its planning process to considering transmission upgrades suggested by transmission owners, and can entertain transmission upgrade proposals from other stakeholders.

Finally, pursuant to Article Four, Section I.C. of the Agreement of Transmission Facilities Owners to Organize the Midwest Independent Transmission System Operator, Inc., the MISO can require any of its transmission owning members, including IP if its transmission assets are not sold to IETC, to pursue the construction of new transmission upgrades with due diligence subject to such siting, permitting, and environmental constraints as may be imposed by state, local, and federal law and regulations, and subject to the receipt of any necessary federal or state regulatory approvals. Simply put, the alleged benefit of the addition of the Sidney to Rising 345 kV line is not any indication of the benefits of independent transmission ownership by IETC.

Q YOU HAD A SECOND CONCERN?

A Yes. I disagree with the manner in which Mr. Norman calculated the alleged societal benefits of the Sidney to Rising 345 kV line. Specifically, Mr. Norman summed the decreased costs for loads with increased profits for generators and increased revenues for imports (FERC Docket Nos. EC03-30-000, et al., Exhibit No. TE-12 at 3). Increased profits for generators and increased revenues for imports do not provide a benefit to society and certainly not to IP's customers. IP's customers will only benefit from lower prices on the load side. IP's customers will not benefit from generators earning greater profits or external suppliers earning greater revenues. It is load on the IP transmission system that will face the brunt of the transmission rate increase. The cost-benefit study should, but does not, focus on the benefits to IP customer loads.

Q HAS IETC PROVIDED ANY OTHER TESTIMONY IN REGARD TO THE ALLEGED BENEFITS THAT IT WILL BRING TO IP CUSTOMERS?

A Yes. IETC witness Mr. Paul D. McCoy's direct testimony in FERC Docket Nos. EC03-30-000, et al. discusses some investments IETC feels are necessary to replace aging facilities and equipment that would be acquired from IP by IETC (FERC Docket Nos. EC03-30-000, et al., Exhibit No. TE-1 at 13-14). These were identified in FERC Docket Nos. EC03-30-000, et al., Exhibit TE-4. These were also identified in Attachment PDM-3 of IETC Exhibit No. 1 in this proceeding.

Q DOES IP BELIEVE THESE INVESTMENTS NEED TO BE COMPLETED IN THE MANNER SUGGESTED BY IP?

A No. In response to IIEC Data Request IIEC-IP-8, IP indicated that it did not believe the investments were necessary in the manner prescribed by IETC (**Schedule 4**).

Q ARE THE INVESTMENTS IDENTIFIED BY IETC NECESSARY IN THE MANNER PROPOSED?

A It is not clear. IETC provides a fresh perspective, but IP has much more experience with its own facilities. Therefore, there is no conclusive evidence the investments IETC proposes are necessary in the manner IETC proposed.

Q DO YOU HAVE A SUMMARY COMMENT TO CLOSE?

A Yes. Aside from the other stated concerns in my testimony, based on what IETC has represented to the FERC in regard to the supposed cost benefits to ratepayers, it is my opinion the cost benefits are insufficient to grant IETC the Certificates it seeks. IETC's proposal is contrary to the public convenience, is not the least-cost approach with regard to existing transmission lines, and results in undue cost to customers.

Q DOES THIS CONCLUDE YOUR SUPPLEMENTAL DIRECT TESTIMONY?

A Yes.

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